

**REPORT OF THE AUDIT OF THE  
MORGAN COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MORGAN COUNTY FISCAL COURT**

**June 30, 2009**

The Auditor of Public Accounts has completed the audit of the Morgan County Fiscal Court for fiscal year ended June 30, 2009. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Morgan County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$15,200,197 as of June 30, 2009. The fiscal court had unrestricted net assets of \$370,720 in its governmental activities as of June 30, 2009, with total net assets in its governmental activities of \$15,200,197. The fiscal court had total debt principal as of June 30, 2009 of \$4,715,204, with \$400,452 due within the next year.

#### **Report Comment:**

2009-01 The Fiscal Court Should Establish Better Controls Over Solid Waste Receipts

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Morgan County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Morgan County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
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Members of the Morgan County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morgan County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2010 on our consideration of Morgan County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discuss the following report comment:

2009-01 The Fiscal Court Should Establish Better Controls Over Solid Waste Receipts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen  
Auditor of Public Accounts

January 29, 2010



MORGAN COUNTY OFFICIALS

For The Year Ended June 30, 2009

**Fiscal Court Members:**

Tim Conley	County Judge/Executive
Randy Cantrell	Magistrate
Denzil Potter	Magistrate
Frankie Spencer	Magistrate
Burton Stacy	Magistrate
Stanley Rigsby	Magistrate

**Other Elected Officials:**

Steve O'Conner	County Attorney
Jimmy D. Easterling	Jailer
Randy Williams	County Clerk
Donna Pelfry	Circuit Court Clerk
Mickey Whitt	Sheriff
Darby Franklin	Property Valuation Administrator
Kenny Perry	Coroner

**Appointed Personnel:**

Tommy Phipps	County Treasurer
Lynn McClurg	Road Supervisor

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**MORGAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**



**MORGAN COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2009**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 370,720
Asset Held For Resale	123,851
Receivable Due From Ambulance Service	53,622
Receivable Due From Gateway Community Services	4,339
Total Current Assets	<u>552,532</u>
Noncurrent Assets:	
Receivable Due From Ambulance Service	126,766
Receivable Due From Gateway Community Services	6,612
Capital Assets - Net of Accumulated Depreciation:	
Land and Land Improvements	2,272,164
Construction in Progress	35,000
Land Improvements	1,661,191
Buildings	6,937,117
Furnishings	23,651
Vehicles and Equipment	654,140
Infrastructure	7,646,228
Total Noncurrent Assets	<u>19,362,869</u>
Total Assets	<u>19,915,401</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations Payable	400,452
Total Current Liabilities	<u>400,452</u>
Noncurrent Liabilities:	
Financing Obligations Payable	4,314,752
Total Noncurrent Liabilities	<u>4,314,752</u>
Total Liabilities	<u>4,715,204</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	14,829,477
Unrestricted	370,720
Total Net Assets	<u><u>\$ 15,200,197</u></u>

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**

**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,527,338	\$ 87,227	\$ 458,635	\$
Protection to Persons and Property	771,117	261,442	96,972	45,000
General Health and Sanitation	176,590			
Social Services	5,257			8,500
Recreation and Culture	44,282	185,070		26,100
Roads	1,273,730		1,373,331	
Interest on Long-Term Debt	221,820			
Capital Projects	345,778			26,989
Total Governmental Activities	\$ 4,365,912	\$ 533,739	\$ 1,928,938	\$ 106,589

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational Taxes

Other Taxes

Excess Fees

Accrued Interest Received

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**MORGAN COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Net (Expenses)</b> <b>Revenues and</b> <b>Changes in Net Assets</b> <b>Primary Government</b>	
<b>Governmental</b> <b>Activities</b>	
\$	(981,476)
	(367,703)
	(176,590)
	3,243
	166,888
	99,601
	(221,820)
	(318,789)
	(1,796,646)
	128,119
	19,052
	53,016
	286,604
	640,592
	72,528
	16,764
	117,045
	1,333,720
	(462,926)
	15,663,123
\$	15,200,197

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Special Projects Fund</b>	<b>Non- Major Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 43,634	\$ 199,119	\$ 12,458	\$ 115,463	\$ 46
Total Assets	<u>43,634</u>	<u>199,119</u>	<u>12,458</u>	<u>115,463</u>	<u>46</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	6,495	3,522	1,281		
Unreserved:					
General Fund	37,139				
Special Revenue Funds		195,597	11,177	115,463	46
Total Fund Balances	<u>\$ 43,634</u>	<u>\$ 199,119</u>	<u>\$ 12,458</u>	<u>\$ 115,463</u>	<u>\$ 46</u>

The accompanying notes are an integral part of the financial statements.

**MORGAN COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2009**  
**(Continued)**

<b>Total Governmental Funds</b>
<u>\$ 370,720</u>
<u>370,720</u>

11,298

37,139
<u>322,283</u>
<u>\$ 370,720</u>

**Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:**

Total Fund Balances	\$ 370,720
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	27,118,525
Accumulated Depreciation	(7,889,034)
Asset Held for Resale	123,851
Notes Receivable Due For Financing Obligations	191,339
Long-Term Debt Is Not Due and Payable In The Current Period and, Therefore, Is Not Reported In The Funds.	
Financing Obligations	<u>(4,715,204)</u>
Net Assets Of Governmental Activities	<u>\$ 15,200,197</u>

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**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Special Projects Fund</b>	<b>Non- Major Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$ 1,067,076	\$	\$	\$	\$ 2,951
In Lieu Tax Payments	57,285	69,891			
Excess Fees	72,528				
Licenses and Permits	2,577				
Intergovernmental	451,702	1,373,331	83,674	106,589	362,775
Charges for Services	13,627	60,000	44,039		
Miscellaneous	142,868	22,452			
Interest	6,156	4,484	549	5,442	133
Total Revenues	1,813,819	1,530,158	128,262	112,031	365,859
<b>EXPENDITURES</b>					
General Government	781,330			13,500	
Protection to Persons and Property	326,562	2,208	547,712	1,267	3,268
General Health and Sanitation	101,014			53,454	
Social Services	5,257				
Recreation and Culture	785				
Roads		932,723			
Debt Service	352,905	410,847			
Capital Projects	692			345,086	
Administration	321,461	231,484	27,700	13,627	
Total Expenditures	1,890,006	1,577,262	575,412	426,934	3,268
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(76,187)	(47,104)	(447,150)	(314,903)	362,591
<b>Other Financing Sources (Uses)</b>					
Financing Obligation Proceeds	110,121	171,458			
Proceeds From Sale Of Asset Held For Resale	104,550				
Transfers From Other Funds	275,000	349,765	454,603		
Transfers To Other Funds	(441,500)	(275,000)			(362,868)
Total Financing Sources (Uses)	48,171	246,223	454,603		(362,868)
Net Change in Fund Balances	(28,016)	199,119	7,453	(314,903)	(277)
Fund Balances - Beginning (Restated)	71,650		5,005	430,366	323
Fund Balances - Ending	\$ 43,634	\$ 199,119	\$ 12,458	\$ 115,463	\$ 46

The accompanying notes are an integral part of the financial statements.



**MORGAN COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2009**  
**(Continued)**

<b>Total Governmental Funds</b>	
<hr/>	
\$	1,070,027
	127,176
	72,528
	2,577
	2,378,071
	117,666
	165,320
	16,764
	<hr/>
	3,950,129
	<hr/>
	794,830
	881,017
	154,468
	5,257
	785
	932,723
	763,752
	345,778
	594,272
	<hr/>
	4,472,882
	<hr/>
	(522,753)
	<hr/>
	281,579
	104,550
	1,079,368
	(1,079,368)
	<hr/>
	386,129
	<hr/>
	(136,624)
	507,344
	<hr/>
\$	370,720
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The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**



**MORGAN COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2009**

Net Change in Fund Balances - Total Governmental Funds	\$ (136,624)
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Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets Is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	189,671
Asset Held For Resale	123,851
Depreciation Expense	(858,220)
Disposal of Asset Held For Resale	(115,823)

Notes Receivable Principal Received is Recorded in the Funds as a Revenue, However in the Government-Wide Financial Statements it Results in an Increase in Cash and Decrease in Notes Receivable Which has no Effect on Net Assets

Change in Notes Receivable	74,630
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The Issuance Of Long-Term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources To Governmental Funds While Financing Obligation And Bond Principal Payments Are Expensed In The Governmental Funds As A Use Of Current Financial Resources. These Transactions Have No Effect On Net Assets.

Financing Obligation Proceeds	(281,579)
Financing Obligations Principal Payments	541,168

Changes in Net Assets of Governmental Activities	<u>\$ (462,926)</u>
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TO THE FINANCIAL STATEMENTS**

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**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Morgan County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Morgan County Fiscal Court does not have any component units, blended or discretely presented.

**C. Morgan County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Morgan County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Morgan County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The primary government reports governmental activities using the economic resources measurement focus and modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid with the exception of depreciation expense on the statement of activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the county. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale on April 30<sup>th</sup>, following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences and donated assets are not reflected in the financial statements.

The County reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.



**MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Special Projects Fund - The purpose of this fund is to account for various state and federal grant receipts and expenditures related to various projects.

The government also has the following non-major funds: Local Government Economic Assistance (LGEA) Fund, and the Forestry Fund.

**Special Revenue Funds:**

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, and the Special Projects Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The County is only reporting infrastructure put in place on or after July 1, 2003.

	Capitalization Threshold	Useful Life (Years)
Land and Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	5-7
Infrastructure	20,000	2-40

**G. Long-term Obligations**

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Jointly Governed Organization**

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating government. The jointly governed organization can act independently of each of the participating governments. The Menifee, Morgan, and Rowan Counties Industrial Park (MMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 2. Deposits**

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institutions failure, the County may not recover its deposits. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity		
	Beginning Balance	Increases	Ending Balance
<b>Primary Government:</b>			
<u>Governmental Activities:</u>			
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 2,272,164	\$	\$ 2,272,164
Construction in Progress	35,000		35,000
Total Capital Assets Not Being Depreciated	2,307,164		2,307,164
Capital Assets, Being Depreciated:			
Land Improvements	2,157,555		2,157,555
Buildings	9,473,108	85,900	9,559,008
Furnishings	37,030		37,030
Vehicles and Equipment	1,383,511	103,771	1,487,282
Infrastructure	11,570,486		11,570,486
Total Capital Assets Being Depreciated	24,621,690	189,671	24,811,361
Less Accumulated Depreciation For:			
Land Improvements	(442,486)	(53,878)	(496,364)
Buildings	(2,404,862)	(217,029)	(2,621,891)
Furnishings	(9,999)	(3,380)	(13,379)
Vehicles and Equipment	(685,466)	(147,676)	(833,142)
Infrastructure	(3,488,001)	(436,257)	(3,924,258)
Total Accumulated Depreciation	(7,030,814)	(858,220)	(7,889,034)
Total Capital Assets, Being Depreciated, Net	17,590,876	(668,549)	16,922,327
Governmental Activities Capital Assets, Net	<u>\$ 19,898,040</u>	<u>\$ (668,549)</u>	<u>\$ 19,229,491</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ (166,837)
Protection to Persons and Property	(38,672)
General Health and Sanitation	(96,749)
Recreation and Culture	(43,497)
Roads, Including Depreciation of General Infrastructure Assets	<u>(512,465)</u>
Total Depreciation Expense - Governmental Activities	<u>\$ (858,220)</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Financing Obligations**

**A. Kentucky Association of Counties – Road Improvements**

On June 27, 2000, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,500,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 240 months to be paid in full November 20, 2019 with an interest rate of 3.963%. The principal balance of the agreement a \$1,599,995 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 120,083	\$ 58,523
2011	126,229	53,891
2012	132,690	49,144
2013	139,482	44,035
2014	146,621	38,704
2015-2019	853,663	103,479
2020	81,227	1,090
Totals	<u>\$ 1,599,995</u>	<u>\$ 348,866</u>

**B. Kentucky Association of Counties – Road Improvements**

On December 20, 2001, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$1,500,000 for road improvements on certain designated county roads. The agreement requires variable monthly payments for 240 months to be paid in full December 20, 2021 with an interest rate of 3.88%. The principal balance of the agreement was \$1,073,636 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 63,781	\$ 38,669
2011	66,984	36,279
2012	70,355	33,827
2013	73,893	31,192
2014	77,609	28,444
2015-2019	450,668	95,905
2020-2022	270,346	14,678
Totals	<u>\$ 1,073,636</u>	<u>\$ 278,994</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Financing Obligations (Continued)**

**C. Kentucky Association of Counties – Library**

On April 19, 2002, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$2,260,000 for the building of a new library. The agreement requires variable monthly payments for 240 months to be paid in full January 20, 2021 with an interest rate of 4.64% plus administrative fees. The principal balance of the agreement was \$1,571,843 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 94,985	\$ 85,217
2011	100,328	80,067
2012	105,970	74,628
2013	116,906	68,883
2014	118,476	62,545
2015-2019	699,880	208,848
2020-2021	335,298	27,486
Totals	<u>\$ 1,571,843</u>	<u>\$ 607,674</u>

**D. Kentucky Association of Counties – Road Equipment**

On April 28, 2003, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$440,000 for the purchase of road equipment. The agreement requires variable monthly payments for 60 months to be paid in full May 20, 2011 with an interest rate of 4.743% plus administrative fees. The principal balance of the agreement was \$121,000 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 59,000	\$ 3,806
2011	62,000	1,436
Totals	<u>\$ 121,000</u>	<u>\$ 5,242</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Financing Obligations (Continued)**

**E. Kentucky Association of Counties – Mini Module Ambulance**

On November 14, 2006, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$50,000 for the Ambulance Service. The agreement requires variable monthly payments for 48 months to be paid in full November 20, 2010 with an interest rate of 4.743% plus administrative fees. The principal balance of the agreement was \$19,000 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 12,000	\$ 794
2011	7,000	176
Totals	<u>\$ 19,000</u>	<u>\$ 970</u>

**F. Kentucky Association of Counties – Ambulance**

On January 28, 2008, the Morgan County Fiscal court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$83,980 for the Ambulance Service. The agreement requires variable monthly payments for 48 months to be paid in full February 20, 2012 with an interest rate of 4.103%. The principal balance of the agreement was \$57,485 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 20,842	\$ 1,897
2011	21,657	1,059
2012	14,986	225
Totals	<u>\$ 57,485</u>	<u>\$ 3,181</u>

**G. Kentucky Association of Counties – Truck**

On June 23, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$11,288 for a GMC Yukon. The agreement requires variable monthly payments for 36 months to be paid in full June 20, 2011 with an interest rate of 7.047%. The principal balance of the agreement was \$7,666 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 3,761	\$ 428
2011	3,905	284
Totals	<u>\$ 7,666</u>	<u>\$ 712</u>



**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Financing Obligations (Continued)**

**H. Kentucky Association of Counties – Backhoe/Loader**

On September 29, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$47,607 for a backhoe/loader. The agreement requires variable monthly payments for 63 months to be paid in full January 20, 2014 with an interest rate of 4.563%. The principal balance of the agreement was \$40,607 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 7,000	\$ 1,647
2011	8,000	1,365
2012	8,000	1,063
2013	8,000	758
2014	9,607	340
Totals	<u>\$ 40,607</u>	<u>\$ 5,173</u>

**I. Kentucky Association of Counties – Vehicle**

On December 1, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$20,141 for a vehicle. The agreement requires variable monthly payments for 36 months to be paid in full November 20, 2011 with an interest rate of 5.231%. The principal balance of the agreement was \$10,141 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 4,000	\$ 339
2011	4,000	351
2012	2,141	120
Totals	<u>\$ 10,141</u>	<u>\$ 810</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Financing Obligations (Continued)**

**J. Kentucky Association of Counties – Mack Truck**

On December 22, 2008, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$123,851 for a Mack truck. The agreement requires variable monthly payments for 60 months to be paid in full December 20, 2013 with an interest rate of 3.899%. The principal balance of the agreement was \$123,851 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$	\$ 4,611
2011	30,000	4,307
2012	30,000	3,187
2013	30,000	2,065
2014	33,851	755
Totals	<u>\$ 123,851</u>	<u>\$ 14,925</u>

**K. Kentucky Association of Counties - Ambulance**

On January 12, 2009, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$89,980 for an ambulance. The agreement requires variable monthly payments for 60 months to be paid in full December 20, 2013 with an interest rate of 3.99%. The principal balance of the agreement was \$89,980 as of June 30, 2009. Lease payments for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 15,000	\$ 3,089
2011	15,000	2,749
2012	20,000	2,096
2013	20,000	1,349
2014	19,980	489
Totals	<u>\$ 89,980</u>	<u>\$ 9,772</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 4. Financing Obligations (Continued)**

**L. Kentucky Association of Counties - Mowers**

On April 15, 2005, the Morgan County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties in the amount of \$175,000 for the purchase of vehicles and mowing equipment. The agreement requires variable monthly payments for 48 months to be paid in full May 20, 2009 with an interest rate of 4.25% plus administrative fees. The principal balance of the agreement was \$0 as of June 30, 2009.

**M. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	\$ 4,858,970	\$ 281,579	\$ 425,345	\$ 4,715,204	\$ 400,452
Governmental Activities Long-term Liabilities	<u>\$ 4,858,970</u>	<u>\$ 281,579</u>	<u>\$ 425,345</u>	<u>\$ 4,715,204</u>	<u>\$ 400,452</u>

**Note 5. Short-term Debt**

**A. Kentucky Advanced Revenue Program**

In July 2008, Morgan County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing notes in the amount of \$519,850, with principal being due in January 2009 with an interest rate 3.75 percent. The county received net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$2,773.

**B. Kentucky Association of Counties – Mack Trucks**

On December 6, 2007, the Morgan County Fiscal Court entered into a lease agreement in the amount of \$115,823 with the Kentucky Association of Counties Leasing Trust for Mack truck purchases. The County purchased heavy trucks to use for one year; then the trucks will be sold at an auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly interest payments and one principal payment due December 20, 2008, with an interest rate of 4.322 percent. The principal balance of the agreement was \$0 as of June 30, 2009.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 5. Short-term Debt (Continued)**

Short-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Kentucky Advanced Revenue Program	\$	\$ 519,850	\$ 519,850	\$	\$
Financing Obligations	115,823		115,823		
Governmental Activities Long-term Liabilities	\$ 115,823	\$ 519,850	\$ 635,673	\$ 0	\$ 0

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Deferred Compensation**

The Morgan County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 7. Deferred Compensation (Continued)**

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

**Note 8. Insurance**

For the fiscal year ended June 30, 2009, Morgan County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Receivables**

**A. Ambulance Service**

The Morgan County Fiscal Court entered into a financing obligation on behalf of the Morgan County Ambulance Service For the purpose of providing funds for the financing of the purchase of three ambulances. The Morgan County Ambulance Service has agreed to pay all debt service requirements on the obligations. Future amounts due to the Morgan County Fiscal Court are:

<b>Fiscal Year Ended June 30</b>	<b>Governmental Activities</b>
2010	53,622
2011	47,641
2012	37,307
2013	21,349
2014	20,469
	<u>\$ 180,388</u>

**B. Gateway Community Services**

The Morgan County Fiscal Court entered into a financing obligation on behalf of Gateway Transportation for the purpose of providing funds for the financing of the purchase of a vehicle. The Gateway Transportation has agreed to pay all debt service requirements on the obligations. Future amounts due to the Morgan County Fiscal Court are:

<b>Fiscal Year Ended June 30</b>	<b>Governmental Activities</b>
2010	4,339
2011	4,351
2012	2,261
	<u>\$ 10,951</u>

**MORGAN COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2009**  
**(Continued)**

**Note 10. Related Party Transactions**

The county purchases gasoline from a gas station owned by Steve O'Connor, Morgan County Attorney. The amount of gas purchased for the 2009 fiscal year was \$1,699.

The Morgan County Treasurer, Tommy Phipps, serves as treasurer for the Morgan County Ambulance Service, a sub-recipient of State Grant Funds. Also, he is an employee of the depository where the County's cash and investments are held.

**Note 11. Prior Period Adjustments**

The beginning net asset balance as of June 30, 2008 for governmental activities of Morgan County Fiscal Court have been restated. We have increased Governmental Activities, the General Fund, and the Jail Fund due to prior year voided checks. We have also increased Governmental Activities for additional receivables due in the prior year and for less equipment and additional Infrastructure. The following is a reconciliation of net assets as of June 30, 2008 as previously reported to the restated net assets balance for the same period.

	<b><u>Governmental Activities</u></b>
Beginning Net Assets	\$ 15,649,017
Adjustments:	
Prior year voided checks - General	1,776
Prior year voided checks - Jail	22
Additional Amount Due For Receivables	8,093
Equipment	(11,288)
Infrastructure	<u>15,503</u>
Restated beginning balance	<u><u>\$15,663,123</u></u>

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**





**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2009**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 1,197,100	\$ 1,239,833	\$ 1,067,076	\$ (172,757)
In Lieu Tax Payments	28,000	28,000	57,285	29,285
Excess Fees	35,907	88,930	72,528	(16,402)
Licenses and Permits	2,578	2,578	2,577	(1)
Intergovernmental Revenue	325,480	477,812	451,702	(26,110)
Charges for Services		13,627	13,627	
Miscellaneous	186,257	258,494	247,418	(11,076)
Interest	2,000	6,065	6,156	91
Total Revenues	<u>1,777,322</u>	<u>2,115,339</u>	<u>1,918,369</u>	<u>(196,970)</u>
<b>EXPENDITURES</b>				
General Government	654,953	813,540	761,189	52,351
Protection to Persons and Property	111,500	247,811	236,582	11,229
General Health and Sanitation	111,900	121,670	101,014	20,656
Social Services		5,257	5,257	
Recreation and Culture	30,073	30,198	785	29,413
Debt Service	350,464	365,974	352,905	13,069
Capital Projects	7,500	7,500	692	6,808
Administration	379,997	350,417	321,461	28,956
Total Expenditures	<u>1,646,387</u>	<u>1,942,367</u>	<u>1,779,885</u>	<u>162,482</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>130,935</u>	<u>172,972</u>	<u>138,484</u>	<u>(34,488)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			275,000	275,000
Transfers To Other Funds	<u>(162,848)</u>	<u>(162,848)</u>	<u>(441,500)</u>	<u>(278,652)</u>
Total Other Financing Sources (Uses)	<u>(162,848)</u>	<u>(162,848)</u>	<u>(166,500)</u>	<u>(3,652)</u>
Net Changes in Fund Balances	(31,913)	10,124	(28,016)	(38,140)
Fund Balances - Beginning (Restated)	<u>31,913</u>	<u>69,874</u>	<u>71,650</u>	<u>1,776</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 79,998</u>	<u>\$ 43,634</u>	<u>\$ (36,364)</u>

See accompanying notes to required supplementary information.

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu Tax Payments	\$ 25,840	\$ 69,891	\$ 69,891	\$
Intergovernmental Revenue	1,458,092	1,693,063	1,373,331	(319,732)
Charges for Services	40,000	60,000	60,000	
Miscellaneous	11,000	23,452	22,452	(1,000)
Interest	2,000	4,117	4,484	367
Total Revenues	1,536,932	1,850,523	1,530,158	(320,365)
EXPENDITURES				
Protection to Persons and Property		2,208	2,208	
Roads	607,250	826,036	761,265	64,771
Debt Service	411,263	438,207	410,847	27,360
Capital Projects	300,000	300,000		300,000
Administration	255,919	360,764	231,484	129,280
Total Expenditures	1,574,432	1,927,215	1,405,804	521,411
Excess (Deficiency) of Revenues				
Over Expenditures Before Other Financing Sources (Uses)	(37,500)	(76,692)	124,354	201,046
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	37,500	37,500	349,765	312,265
Transfers To Other Funds			(275,000)	(275,000)
Total Other Financing Sources (Uses)	37,500	37,500	74,765	37,265
Net Changes in Fund Balances		(39,192)	199,119	238,311
Fund Balances - Beginning (Restated)				
Fund Balances - Ending	\$ 0	\$ (39,192)	\$ 199,119	\$ 238,311

See accompanying notes to required supplementary information.

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>JAIL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 68,178	\$ 83,958	\$ 83,674	\$ (284)
Charges for Services	35,000	38,193	44,039	5,846
Miscellaneous	100	100		(100)
Interest	100	526	549	23
Total Revenues	<u>103,378</u>	<u>122,777</u>	<u>128,262</u>	<u>5,485</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	400,126	567,493	547,712	19,781
Administration	24,200	89,299	27,700	61,599
Total Expenditures	<u>424,326</u>	<u>656,792</u>	<u>575,412</u>	<u>81,380</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(320,948)</u>	<u>(534,015)</u>	<u>(447,150)</u>	<u>86,865</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	320,448	320,448	454,603	134,155
Total Other Financing Sources (Uses)	<u>320,448</u>	<u>320,448</u>	<u>454,603</u>	<u>134,155</u>
Net Changes in Fund Balances	(500)	(213,567)	7,453	221,020
Fund Balances - Beginning (Restated)	<u>500</u>	<u>4,983</u>	<u>5,005</u>	<u>22</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (208,584)</u>	<u>\$ 12,458</u>	<u>\$ 221,042</u>

See accompanying notes to required supplementary information.

**MORGAN COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2009**  
**(Continued)**

	<b>Special Projects Fund</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with</b>
	<b>Original</b>	<b>Final</b>	<b>Amounts, (Budgetary Basis)</b>	<b>Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 582,546	\$ 582,947	\$ 106,589	\$ (476,358)
Interest	-	5,229	5,442	213
Total Revenues	<u>582,546</u>	<u>588,176</u>	<u>112,031</u>	<u>(476,145)</u>
<b>EXPENDITURES</b>				
General Government	13,538	13,715	13,500	215
Protection to Persons and Property	1,535	1,535	1,267	268
General Health and Sanitation	70,000	70,400	53,454	16,946
Capital Projects	609,907	619,893	345,086	274,807
Administration	13,627	40,452	13,627	26,825
Total Expenditures	<u>708,607</u>	<u>745,995</u>	<u>426,934</u>	<u>319,061</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(126,061)</u>	<u>(157,819)</u>	<u>(314,903)</u>	<u>(157,084)</u>
Net Changes in Fund Balances	(126,061)	(157,819)	(314,903)	(157,084)
Fund Balances - Beginning	<u>126,061</u>	<u>157,819</u>	<u>430,366</u>	<u>272,547</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 115,463</u>	<u>\$ 115,463</u>

See accompanying notes to required supplementary information.

**MORGAN COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**Note 1. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of Required Supplementary Information to Statement Of Revenues, Expenditures, and Changes in Fund Balances**

Following is a summary of adjustments that convert the cash basis budgetary schedules to the modified cash basis of accounting used in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

**General Fund:**

Total Revenue - Budgetary Basis	\$ 1,918,369
Subtract: Proceeds From Sale of Asset Held For Resale	(104,550)
Total Revenue - Modified Cash Basis	<u>\$ 1,813,819</u>
 Total Expenditures - Budgetary Basis	 \$ 1,779,885
Add: Financing Obligation Purchases	110,121
Total Revenue - Modified Cash Basis	<u>\$ 1,890,006</u>
 Total Other Financing Sources (Uses) - Budgetary Basis	 \$ (166,500)
Proceeds From Sale of Asset Held For Resale	104,550
Financing Obligation Proceeds	110,121
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 48,171</u>

**Road Fund:**

Total Expenditures - Budgetary Basis	\$ 1,405,804
Add: Financing Obligation Purchases	171,458
Total Revenue - Modified Cash Basis	<u>\$ 1,577,262</u>
 Total Other Financing Sources (Uses) - Budgetary Basis	 \$ 74,765
Financing Obligation Proceeds	171,458
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 246,223</u>

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**MORGAN COUNTY  
COMBINING BALANCE SHEET -  
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
Other Supplementary Information**

**June 30, 2009**





**MORGAN COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2009**

	<b>LGEA Fund</b>	<b>Forestry Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$	\$ 46	\$ 46
Total Assets		46	46
<b>FUND BALANCES</b>			
Unreserved:			
Special Revenue Funds		46	46
Total Fund Balances	\$	\$ 46	\$ 46

The accompanying notes are an integral part of the financial statements.

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**MORGAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2009**



**MORGAN COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2009**

	<b>LGEA Fund</b>	<b>Forestry Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Taxes	\$	\$ 2,951	\$ 2,951
Intergovernmental	362,775		362,775
Interest	93	40	133
Total Revenues	<u>362,868</u>	<u>2,991</u>	<u>365,859</u>
<b>EXPENDITURES</b>			
Protection to Persons and Property		3,268	3,268
Total Expenditures		<u>3,268</u>	<u>3,268</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>362,868</u>	<u>(277)</u>	<u>362,591</u>
<b>Other Financing Sources (Uses)</b>			
Transfers To Other Funds	(362,868)		(362,868)
Total Financing Sources (Uses)	<u>(362,868)</u>		<u>(362,868)</u>
Net Change in Fund Balances		(277)	(277)
Fund Balances - Beginning		323	323
Fund Balances - Ending	<u>\$</u>	<u>\$ 46</u>	<u>\$ 46</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Tim Conley, Morgan County Judge/Executive  
Members of the Morgan County Fiscal Court

**Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morgan County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 29, 2010. Morgan County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Morgan County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morgan County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Morgan County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency listed as item 2009-01 described in the accompanying comment and recommendation to be a significant deficiency in internal control over financing reporting.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Morgan County's financial statements as of and for the year ended June 30, 2009, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Morgan County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comment and recommendation. We did not audit the County Judge/Executive's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

January 29, 2010

**MORGAN COUNTY  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2009**



**MORGAN COUNTY  
COMMENT AND RECOMMENDATION**

**For The Year Ended June 30, 2009**

**INTERNAL CONTROLS - MATERIAL WEAKNESS:**

**2009-01 The Fiscal Court Should Establish Better Controls Over Solid Waste Receipts**

The county's internal controls over solid waste receipts did not contain sufficient checks and balances. The county collects trash at the transfer station and charges customers 50 cents per bag that is collected. The employees at the transfer station collect this money and issue receipts. However, the employee's do not always issue receipts or record the amount collected into their receipt books. The money collected is put into the night deposit box at the local bank and picked up the next morning by the transfer station employees to conduct that day's business. After a week of collections, the money is turned over to the Judge's office for deposit. To verify these procedures, a test of solid waste receipts was performed. Over the period of November 24, 2008 through January 26, 2009, ten deposits were made totaling \$15,649. Auditors took the receipts from the weekly checkout sheets and compared them to the actual deposit book. We noted that receipts deposited did not include all of the receipts that were recorded in the receipt book. Receipts per the receipt books totaled \$17,268, a variance of \$1,619. Also, it appears that no direct oversight exists.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, we recommend the fiscal court develop a system that will document the amount received on both the transfer stations receipt and the customers receipt. This should happen instantly to prevent manipulation of the receipt. Also we recommend that a person independent of the collection process review the daily deposit and daily receipts and agree back to the daily checkout sheet. If these duties cannot be segregated due to limited number of staff or limited budget, then strong oversight should be provided to the employee responsible for these duties.

*County Judge/Executive's Response: We will correct Solid Waste Receipt's by adding control over bank deposits and start up money bag. Also, we will install modern cash register with duplicate copy tape to have better control over our cash flow.*

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**MORGAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2009**

Appendix A





**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**MORGAN COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2009**

The Morgan County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



\_\_\_\_\_  
Tim Conley  
Morgan County Judge/Executive



\_\_\_\_\_  
Tommy Phipps  
Morgan County Treasurer

